
PROMISSORY NOTES,
DRAFTS, AND CHEQUES

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J. W. JOHNSON F. C. A.

FIFTH EDITION





R. A. Huntington

PROMISSORY NOTES, AND BILLS OF EXCHANGE.

WHAT A BUSINESS MAN SHOULD KNOW
REGARDING THEM.

—BY—

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PREFACE.

In the Ontario Business College, Belleville, the Author has for the last seventeen years been lecturing upon and teaching such subjects as this book treats of; and as a Practical Accountant and Business Man has been for twenty-seven years in daily association with them. The book was primarily prepared for the Students of the College, and is one of a series covering the whole ground of Commercial Papers. The faithful study of its contents, even by those not having the advantages of the lectures and blackboard work in the class room, and the practical work in the College, will prove helpful in doing business.

Before being printed in its present form, the matter contained in the first edition was published in the September and October numbers of the *Educational Journal*, Toronto, 1888.

The fifth edition has been prepared since the passing by the Dominion Parliament of an Act relating to Bills of Exchange, Cheques and Promissory Notes, cited as the "Bill of Exchange Act, 1890," and the necessary changes and additions consequent upon the passing of the Act have been made in this edition.

J. W. JOHNSON.

ONTARIO BUSINESS COLLEGE, }
Belleville, 1893. }

[Entered according to Act of the Parliament of Canada, in the year One Thousand Eight Hundred and Eighty-Eight, by J. W. Johnson, at the Department of Agriculture.]

INTRODUCTORY.

It is desirable that a business man should have some knowledge of the principles of law, particularly in its application to commerce, and more especially in relation to Bills and Notes. Ignorance of it can never be successfully urged in prosecuting or defending an action.

COMMON LAW

is the unwritten law that has come to us by tradition, custom, and the decisions of the courts, based on well-known general usage, and common-sense principles of justice.

STATUTE LAW

is the written law, or Acts of Parliament, made from time to time by the Legislatures, and its enactments wholly over-rule the common law.

The History of Bills of Exchange and Promissory Notes shows how the usages of merchants, bankers, and traders became the common law in regard to these instruments. When disputes arose in connection with them, the courts simply required that the general usage among merchants and bankers should be proved, and this being judicially ascertained, it received the sanction of legal decision, and consequently became incorporated into the common law. These legal decisions, again, as precedents became the basis of other decisions. This law-making power of merchants is known as the

Law-merchant (*Lex mercatoria*)

which the courts of justice are bound to know and recognize. The controlling effect of the Law-merchant is well illustrated in the

transfer of Notes and Bills from one person to another. By the rule of the ancient common law, no property that was not actually in possession (or that could be reduced into possession) could be transferred. Bills and Notes only express the legal right to possession of money in the future. But merchants had established the custom of transferring Bills of Exchange by delivering from hand to hand, or by writing a name on the Bill, which not only transferred the right of action, but created an unwritten conditional contract of guarantee to any one who might be the lawful holder. Not only did the Law-merchant thus overcome the general principles of the common law, but to some extent the Statute of Frauds (explained further on) was surmounted.

Another illustration of the Law-merchant is seen in the exemption of Bills and Notes from the ordinary rules that apply to contracts and the law of evidence.

Contracts.

Promissory Notes and Bills of Exchange are the commonest forms of contracts. They enter more than any other into the daily commercial life of the people of any civilized country and into the transactions between the various nations of the world.

When men enter into other forms of contracts—such as those represented by deeds, mortgages, bonds, etc.—they usually, and indeed of necessity, resort to a trained solicitor for direction and guidance, but in giving and receiving notes and bills, the individuals concerned should be able, without recourse to a lawyer, or even to a banker, to deal intelligently and safely with them, under all ordinary circumstances.

This work in its earlier editions has imparted practical knowledge of Bills and Notes to hundreds of students and business men, and to other classes of the community that have to deal with them; written, as it is, by a practical business man, and having as its basis practical experience and observation, and not mere theory or technicality.

While it is desirable, as has been said before, that a reliable solicitor should be a person's guide in making other contracts than Bills and Notes, yet there are certain fundamental principles relating to contracts in general that should be universally known.

There are Two Kinds of Contracts.

Contracts are divided into two classes, which are known as *Simple contracts* and *Specialty contracts*. Simple contracts may be made either by word of mouth or in writing. Specialty contracts must not only be in writing, but must likewise be under seal.

A consideration, that is to say, an equivalent offered by the one party and accepted by the other, is essential in every contract not under seal. When suing upon a simple contract the consideration must in general be proved, but this would not be necessary when enforcing a specialty contract.

The Statute of Frauds.

There are some simple contracts which the law requires to be in writing. The Statute of Frauds, passed in the reign of Charles II. (1676) which is still in force in Canada (as all English common law, and all applicable statute law, prior to 1791, is, unless it has been set aside by Canadian legislation), requires that a verbal promise shall not be sufficient in certain cases, but that the agreement or some memorandum of it shall be in writing, and be signed by the party to be charged therewith, or by some one authorized to sign for him. The principal cases are:

1. Where a man promises to pay the debt of another person, or answer for his default. For example, a man steps into your store and says, "I will be responsible for goods you may sell John Smith to the amount of \$50.00." If, in your ignorance of the law, you did not cause the guarantor to put the agreement in writing, even though you could bring a dozen people to swear to the verbal statement, you would have no legal hold upon him, nothing beyond the moral claim, and that might not be of any value.

2. To enforce the sale or purchase of goods to the value of over \$40.00, the contract must be in writing, unless there has been a part of the purchase money paid upon it, (often called earnest money) be it ever so small, or a partial delivery and acceptance of the goods, even the smallest portion of them.

3. Where an executor or administrator promises to be liable out of his own estate.

4. When an agreement is made which is not to be performed within a year. For instance, if you engaged with a man to serve him as a book-keeper for two years, the agreement would not be binding, unless it was made in writing.

All contracts affecting land or any interest in land, such as a contract to purchase, must be in writing; but instruments that are intended to pass an estate in land, such as deeds and mortgages, must be not only in writing, but under seal. A lease for any term not more than three years may be made verbally, but for a term beyond three years it must be in writing and under seal.

What Constitutes a Seal.

A seal in this case means any adhesive thing, or distinctive mark, that you may adopt as your seal, and attach to the instrument.

Who are Competent to Make a Contract.

Any person of either sex who is twenty-one years old, and of sound mind, is competent to make a contract. A person who is under the age of twenty-one years is, in the eyes of the law, an infant, and incapable of making a contract. Many persons are under the impression that a woman is of age at eighteen. This is a mistake.

A minor (a person under age) could not engage in business on his or her own account, but it would be competent for a minor to contract for necessities suitable for his or her station in life.

A contract with a corporation (say a joint stock company or municipality) must be within the scope of its charter, and to be binding must have the corporation seal attached.* This would not be re-

quired in connection with promissory notes and bills of exchange, issued or drawn, indorsed or accepted in the ordinary course of its business.

An agent may contract for his principal within the scope of his authority, which is usually conferred by an instrument under seal, called a Power of Attorney.

A valid and binding contract may be made by correspondence or telegram. All that is required is an offer and an unconditional acceptance of it. Letters sent by you that are intended to constitute a contract, should be copied into your copying press book, and those you receive in such connection should be carefully filed for reference.

When Contracts are Outlawed.

Simple contracts for debts not referring to land are outlawed after six years from the date of maturity, or from the date of the last payment on account, or from the last written acknowledgment; contracts affecting land ten years, and personal covenants under seal, twenty years. For instance, (1) a note made April 5th 1893, at three months, would be outlawed after July 8th, 1899, if, in the meantime, no payment had been made upon it, or no written acknowledgment had been given in reference to it. (2) The land secured by a mortgage upon which no payment had been made for 10 years, or regarding which no written acknowledgment had been given within that time, would be released at the expiration of that period. (3) The personal covenants for payment on the same mortgage would not be outlawed for twenty years.

Canadian Legislation.

In the year 1890 the Parliament of Canada enacted a Statute known as the "Bills of Exchange Act, 1890," by which previous legislation and decisions respecting Promissory Notes, Bills of Exchange and Cheques have been codified.

PROMISSORY NOTES AND BILLS OF EXCHANGE.

Promissory Notes.

A person has become indebted to you either for goods sold or work done, and you have duly placed the amount to his debit in your ledger; but you find that it will be much more advantageous to you to have this resource or asset of your business in another form, so you obtain from your debtor his promissory note, or get him to accept your draft. Should you desire that the amount owing to you be paid to some one to whom you are indebted, then you will draw the draft payable to his order. Your object in obtaining the written obligation is three-fold:—

1st. It is in itself an evidence of the debt, requiring no confirmation (unless the signature be challenged) nor proof of the consideration given for it, nor the production of the original entry.

2nd. It fixes a definite time, and usually a stated place, for the payment, so that the holder, when it falls due, will not have the trouble of hunting up the maker, nor the maker of finding the holder. The former having provided the funds at the place where he promised to pay it, the holder has simply to present it there and obtain the amount, a matter of much convenience to both parties.

3rd. It is an instrument upon which, after indorsing it, you may borrow money from a bank or private lender. This is called discounting. In other words, by the medium of the bill or note as security, you obtain the use of other people's capital, paying for the loan a discount from the face of the instrument, which is the simple interest, in advance, upon the whole amount for the time it has to run.

Definition of a Promissory Note.

A promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person, or to bearer.

A determinable future time means in connection with a note or draft:—

(a) At sight, or at a fixed period after date or sight.

(b) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a bill or note, and the happening of the event does not cure the defect.

If a note or draft is issued undated, any holder may insert therein the date of issue or acceptance.

A promissory note is inchoate and incomplete until delivery thereof to the payee or bearer.

Parties to a Note.

The person who gives a note is called the drawer, promisor, or maker; the person in whose favor it is drawn is called the payee; if he signs his name upon the back for the purpose of transferring or guaranteeing it, he becomes the indorser, and if he names the person to whom he transfers it the latter is called the indorsee; either of these, or any one in possession of a note, may be called the holder.

Forms of Notes.

Notes may be made (1) non-negotiable, (2) negotiable by indorsement (3) negotiable without indorsement. The first is made payable to the individual only, and can only be transferred by assignment, which carries with it all offsets and legal defences that may exist between the original parties; the second is payable to order, and is

transferred by the indorsement of the holder completed by delivery, which makes the indorser liable for payment in the event of the maker failing to pay; the third is payable to bearer, and is transferred by delivery, just as a bank note is passed from hand to hand. Where, in a note payable to order, the payee or indorsee is wrongly designated, or his name is mis-spelt, he may indorse the bill as therein described, adding, if he thinks fit, his proper signature. A note may be transferred either before or after it is due. When taken before maturity the assignee is not affected by any circumstances, of which he had no notice, existing between the antecedent parties to the note. When received after maturity, the assignee takes the note subject to all the equitable rights existing between the parties.

A Non-Negotiable Note.

\$100.00

BELLEVILLE, October 26, 1893.

Three months after date I promise to pay to William McCabe, only, at the Bank of Montreal here, the sum of One Hundred Dollars, for value received.

JOHN SMITH.

A Note Negotiable by Indorsement.

\$387.80

TORONTO, October 26, 1893.

Five months after date I promise to pay to the order of E. A. Wills the sum of Three Hundred and Eighty-Seven $\frac{80}{100}$ Dollars, at the Canadian Bank of Commerce in Toronto, for value received.

JOHN SMITH.

A Note Negotiable without Indorsement.

\$50.00

HAMILTON, October 26, 1893.

Thirty days after date I promise to pay William Green or bearer, at my office in Hamilton, the sum of Fifty Dollars for value received.

JOHN SMITH.

A Note Payable on Demand.

\$35.00

MONTREAL, Oct. 26, 1893.

On demand for value received, I promise to pay to the order of W. B. Robinson, the sum of Thirty-Five Dollars.

JOHN SMITH.

Where a note payable on demand has been indorsed, it must be presented for payment within a reasonable time of the indorsement : if it be not so presented, the indorser is discharged.

In determining what is a reasonable time, regard shall be had to the nature of the instrument, the usage of trade, and the facts of the particular case.

A Joint and Several Note.

\$75.00

BELLEVILLE, October 26, 1893.

Six months after date we jointly and severally promise to pay to the order of S. G. Beatty the sum of Seventy-Five Dollars, at the office of the Dominion Bank in Belleville, for value received.

HENRY BROWN,
JOHN SMITH,
JAMES G. LEONARD.

Where a note runs "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

The holder of a joint and several note has recourse against all the makers, individually and collectively. Protest is not necessary on dishonor, if there be no indorser on it. Should the holder be obliged to sue, and recover the amount from one of the parties, that party would have recourse against the others for their proportions. The order in which the names appear makes no difference in the liability ; the position of joint and several makers being altogether different from that of indorsers.

A Joint Note

reads, "we jointly" instead of "we jointly and severally." When suing upon a joint note you have to make all the makers parties to the action. The joint and several is the better form for the holder, because any maker can be sued individually.

The Rights of a Third Party in a Negotiable Note.

No arrangement between the maker and payee of a negotiable note can affect the right of a third party to collect who acquired the instrument in due course, that is to say, in good faith, before maturity, for valuable consideration.

The Rights of an Assignee of a Non-Negotiable Note.

In transferring by assignment a non-negotiable note, (the form is : " I hereby assign all my right, title and interest in the within note to ———" and the signature of the assignor) the assignor cannot transfer to the assignee more than he himself possesses,—for example, Henry Ellis gave John Wilson a non-negotiable note for \$300. Wilson assigned it to Alex. Thomson. After it was given, and before it was assigned, Wilson became indebted to Ellis in the sum of \$100, and this amount Ellis has the right to set off against the note when the assignee, Thomson, presents it for payment. Had it been a transfer of a negotiable instrument, payable to bearer or order, the maker would have been bound to pay the third party the full amount, irrespective of the debt which the payee owed him. This example illustrates the difference between a negotiable and a non-negotiable note.

An Accommodation Note

is one on which a person lends his name as an indorser to enable the maker to borrow money upon it. It flatters some men's vanity to be told that such and such a bank would discount a note if they would put their name on the back of it, and in a moment of weakness they assume a liability for another which, very often, they can only be freed from by paying. To indorse and borrow money upon a note that one holds against a debtor is a totally different matter, and is assuming no risk beyond what was incurred when the debt was contracted.

Form of an Accommodation Note.

William E. Brown has obtained John Smith's consent to indorse a note on which he (Brown) proposes to borrow money, or intends

to give to a creditor who is pressing him for security for a debt. Such a note is not drawn to the order of the lender or creditor, but to that of the indorser, that he may be held as first security after the maker.

BELLEVILLE, October 26, 1893.

\$150.00

Three months after date I promise to pay to the order of John Smith, at the Canadian Bank of Commerce here, the sum of One Hundred and Fifty Dollars, for value received.

WILLIAM E. BROWN.

To be indorsed on back
JOHN SMITH.

A Lost Note.

Where a note has been lost before it is overdue, the person who was holder of it may apply to the drawer to give him another one of the same tenor, giving security to the drawer, if required, to indemnify him against all persons whatever, in case the bill alleged to have been lost shall be found again. If the drawer, on request as aforesaid, refuses to give such duplicate note, he may be compelled to do so. In any action or proceeding upon a bill, the court or a judge may order that the loss of the instrument shall not be set up, provided an indemnity be given to the satisfaction of the court or judge against the claims of any other person upon the instrument in question.

Discrepancy Between Words and Figures.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

Not Invalidated.

A note is not invalid by reason only that it is ante-dated or post-dated, or that it bears date on a Sunday. That is to say, a note need not necessarily be dated the day it was made; it can be dated back or dated forward. In dating back or dating forward, the instrument might inadvertently be dated on a Sunday. While such a note would

not be void, it is well to keep in mind that a note actually made on a Sunday would be void.

A Holder in Due Course.

A holder in due course is a holder who has taken a note or bill, complete and regular on the face of it, under the following conditions, namely :—

(a) That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact ;

(b) That he took the instrument in good faith and for value, and that at the time it was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

The title of a person who negotiates an instrument is defective when he obtained the note or bill, or the acceptance thereof, by fraud, duress or force and fear, or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith, or under such circumstances as amount to fraud.

A holder, whether for value or not, who derives his title to a bill or note through a holder in due course, and who is not himself a party to any fraud or illegality affecting it, has all the rights of that holder in due course as regards the acceptor and all parties to the bill or note prior to that holder.

Note Given for a Patent Right.

Every bill or note, the consideration of which consists, in whole or in part, of the purchase money of a patent right or of a partial interest, limited geographically or otherwise, in a patent right, shall have written or printed prominently and legibly across the face thereof, before the same is issued, the words "given for a patent right ;" and without such words thereon such instrument and any renewal thereof shall be void, except in the hands of a holder in due course without notice of such consideration.

The indorsee or other transferee of any such instrument, having the words aforesaid so printed or written thereon, shall take the same subject to any defence or set-off in respect of the whole or any part thereof which would have existed between the original parties.

Every one who issues, sells or transfers, by indorsement or delivery, any such instrument not having the words "given for a patent right" printed or written in manner aforesaid across the face thereof, knowing the consideration of such instrument to have consisted, in whole or in part, of the purchase money of a patent right, or of a partial interest, limited geographically or otherwise, in a patent right, is guilty of a misdemeanor, and liable to imprisonment or fine.

Altering a Note.

Where a note, bill or acceptance is materially altered without the assent of all parties liable, it is voided, except as against a party who has himself made, authorized or assented to the alteration, and subsequent indorsers.

Provided, that where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor.

The following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill or note has been accepted or made payable generally, the addition of a place of payment without the acceptor's or maker's assent.

Legal Rate of Interest.

The rate of interest that can be legally collected upon an overdue note, or any debt, on which the rate is not fixed by agreement, is six per cent per annum. It is important, when drawing a note, that is to bear a higher rate than six per cent., that the words "AS WELL AFTER AS BEFORE MATURITY UNTIL PAID" be inserted. If these words or words

to the same effect, are not inserted, the note would bear interest at the higher rate till maturity, but after that only at the legal rate.

There is no usury law in this country, nor is it desirable that there should be. Money, like any other commodity, will bring for its use to the owner usually just what it is worth, considering the risk run and the demand and the supply. If a lender is content with a fair rate of interest he can readily find borrowers with good security to offer, and the grasping man can find customers, too, who will promise a high rate of interest, but offer poor security for the fulfilment.

Days of Grace.

The custom among merchants has established the practice, which is recognized in law, of allowing three days of grace upon all promissory notes, drafts, and bills of exchange not payable on demand. No time bill is legally due until the days of grace have expired. In preparing to meet your own paper, or in presenting for payment that of your customers, bear this fact in mind, and be careful when entering the due dates in your bill book to add the three days of grace. To illustrate: A note given at three months from October 26th would not fall due till January 29th. A note given at ninety days from October 26th would not fall due till January 27th.

Power of Attorney.

It is customary for firms to grant to their managing accountants the power to draw bills, sign notes, accept drafts, draw cheques, and generally transact their financial business. This authority is conveyed and exercised under a document called a Power of Attorney. It may be special or general—special in confining the exercise of it to a limited number of acts; general by the conveyance of the authority to act for the firm in carrying on its ordinary financial operations. The usual way for a person who is acting under a power of attorney to sign business papers is, to sign the firm name, and place his own

underneath, with the words "per pro" or letters "p. p." before it, thus :

J. C. MORGAN & Co.,
per pro J. W. Johnson.

The abbreviations stand for the phrase "by procuration."

A signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority.

Where a person signs a note or bill as drawer, indorser, or acceptor, and adds words to his signature, indicating that he signs for or on behalf of a principal, or in a representative character, he is not personally liable thereon ; but the mere addition to his signature of words describing him as an agent, or as filling a representative character, does not exempt him from personal liability.

When a Note Becomes Outlawed.

A bill or note becomes outlawed six years after the date of maturity, or after the date of the last payment on account, or after the last written acknowledgment. That is, the holder of such a note cannot recover upon it if the maker, on being sued, sets up in defence the Statute of Limitations, which was passed in the twenty-first year of the reign of King James I., to limit the time allowed to parties to commence their suits, so as to shorten litigation. In all civilized countries some period is prescribed by statute with this view. An instrument approaching the legal, though not the moral, end of its existence may be brought back to infancy and have its life renewed, by the holder obtaining say, in answer to a letter, an acknowledgment in writing of the debt from the maker of the note.

Indorsements.

The act of writing the name upon the back of an instrument is called indorsing, which has two effects; it makes the indorser responsible for payment in the event of the maker failing to pay at maturity, and it makes an instrument that is payable to order, transferable.

The forms of indorsement commonly in use are (taking a note payable to the order of John Jones as an example) :—

Indorsement in Blank, Specifying no Indorsee, as
John Jones,

which has the effect just described. When a note or bill has been indorsed in blank, any holder may convert the blank indorsement into a special indorsement, by writing above the indorser's signature a direction to pay the bill or note to, or to the order of, himself or some other person.

Indorsement in full or Special Indorsement Specifying the Indorsee to Whose Order it is to be Payable, as

Pay to the order of William Black

John Jones,

which makes the indorser responsible and the instrument negotiable only after it has been indorsed by the indorsee, William Black.

Qualified Indorsement.

Without recourse to me,

JOHN JONES,

which relieves the indorser of responsibility, and simply makes the instrument transferable.

Restrictive Indorsement.

Pay to Richard Brown only

JOHN JONES,

which makes the indorser responsible, but confines the payment to the indorsee.

Other forms of qualifying indorsement are used, such as that placed on cheques payable to order sent by a clerk to the bank to be deposited to the firm's credit :

For deposit only.

JOHN BEATTY & Co.

The qualifying words render it impossible for the person making the deposit to draw the money.

Indorsements are often made to serve as receipts, as, for example, I draw a cheque payable to S. Jones, or order, instead of to S. Jones or

bearer, because, if drawn to order, Jones must sign his name on the back before he can receive payment. On paying and receiving back a note payable to order that has not been transferred, and consequently not indorsed, you should have the payee indicate that he had held it, or you could prove nothing by it. Have him indorse it and immediately cancel the indorsation. Notes that have been retired should be cancelled and filed away like receipts.

The Order of Indorser's Liability.

The holder of a note upon which there is an indorser or several indorsers has equal recourse against any of them (provided they have been duly notified of non-payment) and the maker at maturity. If he should be obliged to sue and should recover from the maker, that would discharge all the indorsers; should he recover from the first indorser, that man would have recourse against the maker, but not against subsequent indorsers; should he recover from the second indorser, that indorser would have recourse against all that preceded him, namely the first indorser and the maker. If you should have to become an indorser on a note along with other indorsers, you will see the importance of placing your name last.

Guarantee.

You may guarantee the payment of a note as follows: "I hereby guarantee the payment of the within note," and sign your name. Your liability is beyond that of an indorser, and you would not be relieved for want of presentation, nor for want of notice of dishonor.

Where to Present a Note for Payment.

1. Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that place. But the maker is not discharged by the omission to present the note for payment on the day that it matures. If no place of payment is specified in the body of the note, presentment for payment is not necessary in order to render the maker liable.

2. Presentment for payment is necessary in order to render the indorser of a note liable;

3. Where a note is in the body of it made payable at a particular place, presentment at that place is necessary in order to render an indorser liable; but when a place of payment is indicated by way of memorandum only, presentment at that place is sufficient to render the indorser liable, but a presentment to the maker elsewhere, if sufficient in other respects, shall also suffice.

'The Proceedings to be taken on the Non-payment of a Note Having an Indorser.

It is of the first importance to understand what should be done in the event of a note, having an indorser, being dishonored at maturity. The maker's liability is absolute, but the indorser's is conditional on his receiving notice of non-payment. A note that may be regarded as perfectly good before maturity, not because the drawer is reliable, but because the indorser upon it is financially sound, may, after it has become due, be practically worthless, if the proper steps to hold the indorser have not been taken. Having presented it at the place named by the drawer for its payment, and payment being refused, the holder is bound to notify the indorser, immediately, in order to have recourse against him. This will be best accomplished by handing the instrument to a Notary Public to be protested. The notary will make a demand for the payment, and, being answered "No Funds," will write out a protest, inserting in it the answer to his demand; and he will, not later than the following business day, mail a notice of protest to the known address of the indorser or indorsers, from the nearest post office to the place at which the note was payable. The protest will cost the holder, in the Province of Ontario, fifty cents, and each notice twenty-five cents and the postage, which charges he will be entitled to collect from any of the parties to the note, as well as legal interest from the date of maturity. The production of the protest with the note in court will be sufficient *prima facie* evidence upon which to sue an indorser.

In this Province, notaries are appointed without special examinations by the Ontario Government. They are usually attorneys, however. In the Province of Quebec, the notarial is a distinct profession, as it is in France.

When a dishonored note or bill is authorized or required to be protested, and the services of a notary cannot be obtained at the place where the bill is dishonored, any justice of the peace resident in the place may present and protest such bill, and give all necessary notices, and shall have the necessary powers of a notary in respect thereto.

Waiving Protest.

By waiving protest an indorser renders it unnecessary for the holder to have an instrument protested. This is usually done, if before maturity, by the indorser writing the words on the back :

“Presentation and Protest Waived.”

JOHN JONES.

If at maturity :

“I hereby accept notice of non-payment and waive protest”

JOHN JONES.

Protest may be waived by letter or telegram, should the indorser be absent from the place of payment at the date of maturity.

There is no necessity to protest a dishonored note upon which there is no indorser; the maker can be held for six years after maturity.

Noting.

When a bill or note is required to be protested within a specified time, it is sufficient that it has been noted for protest before the expiration of the specified time; and the formal protest may be extended at any time thereafter as of the date of the noting.

Paying or Making Partial Payments upon Notes.

When you pay a note or renew one, be sure that you get it back, and, if it has not been done already, cancel it, by writing “cancelled” or “paid” across the face, and run a pen through the maker’s and indorser’s names, and thus render it valueless. If the payee should still be the holder, he should, before returning it, indorse it, or place some written evidence upon it that he had been in possession of it, otherwise you could prove nothing by it. Put cancelled notes away in packages as you should receipts, for production at any time when necessary.

The importance of receiving back notes that have been paid was

made very apparent to me by a circumstance that came under my observation recently. A man borrowed a sum of money upon two notes from a lender, and he, in turn, discounted them at a bank. At the date of maturity the drawer duly appeared and tendered payment to the man from whom he borrowed, who accepted it and gave a receipt. His excuse for not producing and returning the notes was that they were in the bank, and it was inconvenient to go for them, but he promised to send them at an early day. In less than a week he "skipped out" without returning the notes, and of course the maker had to pay the amount to the bank, as well as the notarial charges incurred in protesting them. Retail dealers, who have to ask for renewals from wholesale houses, are often careless about receiving back their old notes. It is not difficult to recall cases in which such paper has turned up in banks after the failure of a wholesale concern, and the easy-going dealer had to pay them.

When making partial payments upon notes, see that the payment is properly acknowledged on the back of the instrument, and take a separate receipt as well.

THE BOOK-KEEPING IN CONNECTION WITH NOTES.

Any written obligation to pay money not under seal is termed in business by the holder a Bill Receivable, and by the maker or acceptor a Bill Payable. *In book-keeping the accounts in the ledger with these are called, respectively, Bills Receivable account and Bills Payable account. Bills Receivable account is made Dr. when other people's notes and acceptances are received, and credited when they are disposed of. The difference, or balance, between the two sides should correspond with the notes on hand, and the account closes, by balance, unless all the notes have been disposed of, when, of course, it will be simply ruled and footed.

Bills Payable account is credited when you issue a note or accept a draft, and debited when you redeem or, as the word is, retire these obligations. The difference between the two sides should

* No business man should omit to keep a Bill Book in addition to the Ledger Accounts with Bills Receivable and Bills Payable.

correspond with the obligations outstanding, and the account closes, to balance, unless all the notes have been paid, when, like Bills Receivable account under like circumstances, it will be ruled and footed. The mere novice in book-keeping will understand and be able to deal with these accounts when, in the case of Bills Receivable, they are simply received and disposed of, and, in the case of Bills Payable, when they are simply issued and redeemed. But in the event of

Notes Having to be Renewed,

more difficulty will be experienced. I shall take an example or two. A note of \$300 received from F. Spencer was duly debited to Bills Receivable, and his account was credited. It stood at the debit of Bills Receivable until I disposed of it by discounting it at the Bank of Commerce, when I made the bank debtor for the proceeds, discount debtor for the difference between the proceeds and the face of the note, and credited Bills Receivable account with the whole amount. My customer asks for a renewal of the note, and I consent.

The renewal is for three months, and the interest is to be added to the new note, making it \$305.20. I pay the old note by cheque, send it back to Spencer, and get the new one. Entries for the cheque given to pay the note :

Bills Receivable.....	\$300
To Bank.....	\$300

This entry places the note where it was before it was discounted, and is the same that would be made by an endorser, under any circumstances, paying a note for a maker, except when the maker was considered financially worthless, when it would be charged to Loss & Gain.

Entries for the Renewal.

Bills Receivable Dr.....	\$305 20
To Bills Receivable.....	\$300 00
“ Interest.....	5 20

The maker's entry for the same transaction would be :—

Bills Payable Dr.....	\$300 00
Interest “.....	5 20
To Bills Payable.....	\$305 20

Partial Renewals.

Brown renews for you half the amount of a note for \$500.00 due to-day. You pay \$250 cash, and give a new note for half the amount of the old one and interest on renewal, \$3.50.

1. Your entry :	\$ c.
Bills Payable Dr....	500 00
Interest....	" 3 50
To cash.....	\$250 00
" Bills Payable....	253 50

2. His entry :	
Bills Receivable Dr	253 50
Cash	" 250 00
To Bills Receivable....	500 00
" Interest.....	3 50

Brown renews for you half the amount of a note for \$600.00, due to-day. You pay \$303.00, being half the amount, plus the interest on renewal, and you give a new note for half the amount of the old one.

3. Your entry :	
Bills Payable Dr..	600 00
Interest " ..	3 00
To Cash.....	303 00
" Bills Payable	300 00

4. His entry :	
Bills Receivable Dr.	300 00
Cash	" 303 00
To Bills Receivable....	600 00
" Interest.....	3 00

Where a cash book is kept, of course the cash would have to be put through it. In that case the entries for No. 1 would be as follows :—

JOURNAL.

Bills Payable Dr..	250 00
Interest	" .. 3 50
To Bills Payable	253 50

CASH CREDIT.

By Bills Payable. For	
part payment on No. 92,	
renewed as per Journal	
and Bill Book.	250 00

* Lien Notes.

Lien notes are now frequently given by people purchasing agricultural implements, pianos, organs, sewing machines, etc.

A Common Form of Lien Note.

KIND OF MACHINE.	Number of Machine.	Agent	\$ —————	BELLEVILLE, ... 189
			On the first day of 189 , I promise to pay THE G. & J. BROWN MAN'FG. CO., (LIMITED), or order at their Office, in Belleville, for value received Dollars, with interest at Seven per cent., and at the rate of Ten per cent. interest after date of maturity. I further agree to furnish security satisfactory to you at any time if required. If I fail to furnish such security when demanded, or should I sell or otherwise dispose of the land or personal property I am now possessed of, then this note is to become due and payable forthwith ; and you may retake possession of the article for which this note is given without process of law, and sell it by public or private sale, but the taking and selling of said article shall not relieve me of my liability for any balance of the purchase price still unpaid after such sale. The title and right to the possession of the property for which this note is given shall remain vested in THE G. & J. BROWN MAN'FG. CO., (LIMITED), until this note or any obligation given therefor is paid. I hereby acknowledge having this day received a copy of this note. Lot Con. Township P. O. Address Witness	

An Act of the Ontario Legislature respecting conditional sales of chattels came into force on the first of January, 1889.

It provides that such an instrument as the above is valid as against subsequent purchasers of the article for which it was given, if at the time possession was given to the bailee it had the name and address of the manufacturer, bailor or vendor of same painted, printed, stamped or engraved thereon, or otherwise plainly attached thereto.

Any proposed purchaser of the article can demand and is entitled to receive within five days from the manufacturer, bailor or vendor, claiming ownership, full information respecting the amount due and the terms of payment ; and if he refuse to give such information, he

*Attention is drawn to the fact that Lien Notes are dealt with under Provincial Legislation.

will be liable to a fine of \$50. The inquiry may be made by letter, giving the name and address to which a reply may be sent, and it will be sufficient if the reply giving the information be made by registered letter within five days.

If possession be taken of the article for breach of condition it may be redeemed within twenty days, by full payment of the amount due and the cost of taking possession. If the goods taken were sold or bailed originally for a greater sum than \$30.00, they shall not be sold, when seized for breach of condition, without five days notice to the bailee or his successor in interest, by personal service of notice, or leaving it at his residence or last known place of abode in Ontario, or sent by registered letter seven days before the time when the said five days will elapse, addressed to the last known post-office address in Canada of the bailee or his successor in interest.

A copy of the receipt note must be left with the bailee at the time of the execution of the instrument, or within twenty days thereafter.

The manufacturer, bailor or vendor may file a copy of the instrument with the Clerk of the County Court of the county in which the bailee resided at the time of the conditional purchase within ten days from its execution, and thereby relieve himself from some of the provisions of the Act.—*See Ontario Statutes, 1888, Cap.*

19

I. O. U.

Is a memorandum of a debt given by a borrower to a lender as for example :—

Montreal, April 28th, 1893.

Mr. A. B., I. O. U. Ten Dollars.

C. D.

It is not a promissory note, but is valuable evidence of the existence of the debt.

DRAFTS, OR INLAND BILLS OF EXCHANGE.

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person, or to bearer ;

An inland bill is a bill which is, or on the face of it purports to be, (a) both drawn and payable within Canada, or (b) drawn within Canada upon some person resident therein. Any other bill is a foreign bill.

Nearly all that has been said of notes is applicable to drafts ; they differ, however, in form and in other respects. A note is a *promise* to pay, originating with the debtor ; a draft is an *order* to pay, originating with the creditor, and addressed by him to the debtor. There are three parties to a draft—the *drawer*, the one that draws it ; the *payee*, the one in whose favor it is drawn ; the *drawee*, the one on whom it is drawn, who becomes the acceptor. The acceptor of a draft stands in the same position as the maker of a note, and the drawer of a draft stands in the same position as the first indorser of a note. To be held for a dishonored bill, notice of dishonor must be sent to the drawer not later than the next following business day. This will be best accomplished by handing it to a Notary Public to be protested. Any drawer or indorser to whom such notice is not given is discharged.

The Theory of Exchange.

In commerce, an “Exchange” means to pay your creditor by transferring to him a debt owing to you by some one else.

The following example will illustrate both the theory and practice of exchange. You will observe that three parties and two debts are necessary to an exchange :

Robinson & Johnson, Belleville, are indebted to John Lovell & Son, Montreal, who desire that they shall pay at ten days' sight the amount to R. Miller, Son & Co., to whom John Lovell & Son are indebted, and to effect this they draw the following :—

Draft.

\$500.00

MONTREAL, January 8th, 1893.

Ten days after sight, pay to the order of * R. Miller, Son & Co., the sum of Five Hundred Dollars, for value received, and charge the same to the account of

†JOHN LOVELL & SON.

To ‡ Robinson & Johnson,
Ontario Business College,
Belleville.

* Payee. †Drawer. ‡ Drawee.

To make the draft binding upon Robinson & Johnson they will have to accept it, which they will do by writing across the face :

*Accepted January 10th, 1893, payable at the
Canadian Bank of Commerce, Belleville.
Robinson & Johnson.*

After which it is called an acceptance. Robinson & Johnson are now in the same position as if they had made a promissory note, and John Lovell & Son are in the same position as the first indorser on a note. It is customary to allow the drawee to choose the place of payment ; in this case Robinson & Johnson name the Bank of Commerce, Belleville. If the draft were drawn at ten days' date instead of ten days' sight, there would be no necessity to place the date of acceptance upon it. In the former case the maturity would be reckoned from the day the draft was drawn, in the latter it is reckoned from sight.

The drawer of a draft may be both drawer and payee. If John Lovell & Son desired to collect for themselves the amount of Robinson & Johnson's debt, they would draw the draft to their own order.

The entries of the parties to the foregoing draft would be as follows :—

John Lovell & Son's	{	R. Miller, Son & Co., Dr.
would be	{	To Robinson & Johnson.
R. Miller, Son & Co's.	{	Bills Receivable, Dr.
would be	{	To John Lovell & Son.
Robinson & Johnson's	{	John Lovell & Son, Dr.
would be	{	To Bills Payable.

Further Illustration of "Exchange."

Here is a further illustration of "Exchange," given by Macleod, one that any person will readily understand :

You are travelling in an omnibus. The fare is twenty-five cents. The smallest change you have is fifty cents, which you hand to the conductor. Another passenger is desirous of paying his fare, and has twenty-five cents in his hand ready to hand over. The conductor tells him to pay it to you, which he does. By this means the conductor's debt to you is paid by the transfer to you of the other passenger's debt to him, and thus considerable trouble is saved.

The principle of exchange here is precisely the same as that involved in the draft, for, as you will see, if you study the matter, John Lovell & Son are in the same position as the conductor of the omnibus, and pay their debt to R. Miller, Son & Co. by transferring to that firm the debt owing to them by Robinson & Johnson, just as the conductor paid his debt to you by causing the other passenger to pay you the sum he owed the conductor.

The Acceptor's Liability.

The acceptor of a bill, by accepting it—

Engages that he will pay it according to the tenor of his acceptance.

The Drawer's Liability.

The drawer of a bill, by drawing it—

Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it is dishonored he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonor are duly taken.

The Indorser's Liability.

The indorser of a bill, by indorsing it—

Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it is dishonored he will compensate the holder or a subsequent indorser who is compelled to pay it, provided that the requisite proceedings on dishonor are duly taken.

Where a Bill is Dishonored, Who May Recover and What.

In case of dishonor the holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an indorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior indorser—

(1) The amount of the bill ;

(2) Interest thereon from the time of presentment for payment, if the bill is payable on demand, and from the maturity of the bill in any other case ;

(3) The expenses of noting and protest.

Drafts sent for acceptance or collection through a bank will be protested if dishonored, unless instructions to the contrary have been given, or a slip be pinned to the draft with the words printed or written upon it : "Not to be protested ; take this off before presenting." You may often succeed in collecting from a slow customer by the medium of a draft, when dunning letters would fail to produce a cent. When drawing on a doubtful customer, be sure to attach

the "No protest," for the reason that if your draft should be returned dishonored and protested, you will have to pay the notarial charges yourself.

Definition and Requisites of Acceptance.

The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer :

An acceptance is invalid unless it complies with the following conditions, namely :—

(a) It must be written on a bill and be signed by the drawee. The mere signature of the drawee without additional words is sufficient ;

(b) It must not express that the drawee will perform his promise by any other means than the payment of money ;

Where in a bill the drawee is wrongly designated or his name is mis-spelt, he may accept the bill as therein described, adding, if he thinks fit, his proper signature, or he may accept by his proper signature.

When a bill is duly presented for acceptance, and is not accepted on the day of presentment or within two days thereafter, the person presenting it must treat it as dishonored by non-acceptance. If he does not, the holder shall lose his right of recourse against the drawer and indorsers.

When a bill is dishonored by non-acceptance, an immediate right of recourse against the drawer and indorsers accrues to the holder, and no presentment for payment is necessary.

A Bill must be Duly Presented for Payment.

1. If it is not so presented, the drawer and indorsers shall be discharged ;

2. A bill is duly presented for payment which is presented in accordance with the following rules :—

(a) Where the bill is not payable on demand, presentment must be made on the day it falls due ;

(b) Where the bill is payable on demand, then presentment must be made within a reasonable time after its issue, in order to render the drawer liable, and within a reasonable time after its indorsement, in order to render the indorser liable ;

(c) Presentment must be made by the holder or by some person authorized to receive payment on his behalf, at the proper place, as hereinafter defined, either to the person designated by the bill as payer, or to his representative or some person authorized to pay or refuse payment on his behalf, if, with the exercise of reasonable diligence, such person can there be found ;

(d) A bill is presented at the proper place :—

(1) Where a place of payment is specified in the bill and the bill is there presented ;

(2) Where no place of payment is specified, but the address of the drawee or acceptor is given in the bill, and the bill is there presented ;

(3) Where no place of payment is specified and no address given, and the bill is presented at the drawee's or acceptor's place of business if known, and if not, at his ordinary residence, if known ;

(4) In any other case, if presented to the drawee or acceptor wherever he can be found, or if presented at his last known place of business or residence.

Where a bill is presented at the proper place, and, after the exercise of reasonable diligence, no person authorized to pay or refuse payment can be found there, no further presentment to the drawee or acceptor is required.

Where the place of payment specified in the bill or acceptance is any city, town or village, and no place therein is specified, and the bill is presented at the drawee's or acceptor's known place of business or known ordinary residence therein, and if there is no such place of business or residence, the bill is presented at the post office, or principal post office in such city, town or village, such presentment is sufficient.

Bank Commission for Collecting.

The banks usually charge $\frac{1}{4}$ of 1% for making collections. If you wish to draw for a debt, say of \$200, in this province, and the drawee is to pay the exchange, the amount of your draft would be \$200.50. If the drawee resides in a distant part of the Dominion, or in the United States, and you cannot tell what the cost of collection will be, as the draft will have to pass through several banks before presentation, and each be paid a commission, add the words after the amount in the body of the draft, "WITH EXCHANGE."

Kinds of Drafts.

There are three kinds of drafts, namely, Time, Sight and Demand. Time drafts are those that are intended to run a certain time after date or after acceptance. The only difference between a draft at sight and a draft on demand is, that on the former the drawee can take three days of grace, and the latter is payable on presentation. When you desire to give the drawee a definite number of days for the payment of a draft after he accepts it, draw so many days after sight. If you draw so many days after date the time is fixed for the payment, irrespective of the date of acceptance. For example, to give the drawee ten actual days from sight, draw at seven days' sight; to give him four days, draw at one day's sight, and so on. The days named and the three days of grace make the time the draft will mature after sight.

*Accommodation Draft ("Kite Flying").

It is not an unusual thing when an extensive wholesale house fails, to hear of numerous failures among retail dealers in the same line. It will be found that disaster has come upon the latter because they have lent their names to the former too freely. To illustrate: I am doing a retail business in Belleville with a fair amount of capital, my largest creditor being John Blank & Co., of Toronto. They have placed me under obligation by renewing my paper occasionally, and otherwise indulging me. Better for me that they had not. They write and ask me to accept their draft at three months for \$500,

*See "Accommodation Note," page 12.

beyond the amount that I owe them, giving the excuse that they have to buy a large amount of exchange to remit to England in the coming week, or they have heavy duties to pay, and they remind me of the help they have given me in the past. Being of a grateful turn, and believing that the house of Blank & Co. could not be otherwise than sound, I consent, and duly accept the draft, hoping that I shall not be called upon again to accommodate them with my name. At the end of the three months they duly retire my acceptance and return it to me, as I knew they would. I am surprised, however, in a few days by a request to accept two more drafts of \$500 each, for their accommodation. Similar excuses are given, and I assume an obligation of \$1000, for which I receive no value. As time goes on similar requests continue, and so does my folly, until my name is upon their paper for a sum larger than my capital. They fail with this paper under discount at the bank, and as it would be impossible for me to pay it and discharge my legitimate obligations, I too have to make an assignment. An accommodation party is liable on the bill to a holder for value; and it is immaterial whether, when such holder took the bill, he knew such party to be an accommodation party or not. Need I add the caution—never accept accommodation drafts, or, as the expression is, “fly kites” for any one. The man who accepts an accommodation draft is in a worse position than the man who endorses an accommodation note. The latter can come on the maker; but the other, being the primary debtor, will only have an equitable right over against the estate of the man whom he accommodated.

Obtaining Assistance by Draft to Retire an Acceptance or Note.

A business man is frequently in such a position as the following :—

His acceptance (or note) for \$600.00 in favor of John Allen & Co., of Montreal, will fall due four days hence at the Bank of Montreal in Kingston. All he can raise towards paying it is \$300.00; so he writes them the following letter :

KINGSTON, June 9, 1893.

MESSRS. JOHN ALLEN & CO.,
MONTREAL.

GENTLEMEN,—I regret that I shall not be able to pay in full my acceptance in your favor due on the 13th instant. All I can raise is \$300, and I request that you will kindly permit me to draw on you at sight for the balance, \$300, for which you may draw back upon me at ten days, with interest and exchange.

Yours faithfully,

RICHARD ROE.

He receives the following reply :—

MONTREAL, June 10, 1893.

MR. RICHARD ROE,
KINGSTON

DEAR SIR,—Your letter of the 9th inst. is received, and in reply we hereby authorize you to draw on us at sight for \$300, to assist you to retire your acceptance in our favor, due June 13th. As requested, we shall draw back upon you for that amount, adding interest and exchange.

Yours faithfully,

JOHN ALLEN & CO.

The letter of authority to draw the draft will be shown by Roe to the manager of the bank, with the request that the bank will discount it. He consents. Roe draws the following draft :

KINGSTON, June 13, 1893.

\$300.00.

At sight, for value received, pay to the order of the Bank of Montreal the sum of three hundred dollars, and charge to the account of

RICHARD ROE.

TO MESSRS. JOHN ALLEN & CO.,

MONTREAL.

(N. B.—Roe might draw the draft to his own order and indorse it over to the bank.)

Roe has the draft discounted, and leaves the proceeds, \$299.25, to his credit in the bank.

John Allen & Co. retire the draft by check on presentation.

The interest and cost of collecting the draft they draw back upon Roe is \$1.50 ; so they draw upon him at ten days' date for \$301.50.

Entries.

Roe's entry when he draws the draft on Allan.	}	Bank Dr. \$299.25.	
	}	Discount Dr. 75.	
	}	To John Allan & Co.	\$300.00.
Allan's entry when they retire Roe's draft by check.	}	R. Roe, Dr. \$300.00.	
	}	To Bank	\$300.00.
Allan's entry when they charge Roe with the interest and exchange on the draft to be drawn at ten days.	}	R. Roe, Dr. \$1.50.	
	}	To interest,	\$1.50.
Allan's entry when they draw on Roe at 10 days.	}	Bills Rec. \$301.50	
	}	To R. Roe.	\$301.50.
Roe's entry when he accepts Allan's draft at ten days' date.	}	John Allan & Co., Dr. \$300.00.	
	}	Interest " 1.50.	
	}	To Bills Payable,	\$301.50.

The note to retire which assistance was obtained, was duly charged to Roe's account in the Bank, and he made

Bills Payable, Dr. \$600.00.

To Bank 600.00

and when he retires the acceptance of \$301.50 he will make

Bills Payable \$301.50.

To Bank, \$301.50.

A Bank Draft

is a medium by which a remittance is made. You desire to send or carry money to a distance in a way that will be safe. Buy from a bank a draft payable on demand, at the place desired, to your order, or to that of the person for whom the money is intended. It will cost you a quarter of one per cent. more than the face, and will be cashed at par at the branch or bank it is drawn upon.

If the draft is drawn upon a foreign country, it is called a Foreign Bill of Exchange.

FOREIGN BILLS OF EXCHANGE.

Bills of Exchange were not known to the ancients. We have records, however, of their use in the fourteenth century. It is probable that a Bill of Exchange was in its origin nothing more than a letter of credit from a merchant in one country to his debtor, a merchant in another, requesting him to pay the debt to a third person who carried the letter, and was travelling to the place where the debtor resided.

This mode of making payments was found by experience extremely convenient for all parties—to the creditor, for he could thus collect his debt without trouble, risk or expense; to the debtor, for the facility of payment was an equal accommodation to him; to the bearer of the letter, who found himself in funds in a foreign country, without the danger and incumbrance of carrying specie.

At first, perhaps, the letter alluded to many other things besides the order to pay money; but it was gradually disencumbered of all other matters, was left open, and the paper on which it was written gradually assumed the size and form now in use. The assignee was, perhaps, desirous to know beforehand whether the party to whom it was addressed would pay it, and sometimes showed it to him for that purpose; his consent to pay was the origin of acceptances.

Foreign Exchange Explained.

The theory and nature of inland exchange have been fully set forth at pages 27, 28 and 29, and I shall now explain Foreign Exchange by the following practical illustrations: I am a produce commission merchant in Montreal, and have received from the firm of John Lord & Co., London, England, an order for a quantity of wheat. I have shipped it on board the steamship "Parisian," and have obtained from the vessel's agent (or the master or purser) the bill of lading duly signed (in which I have had the wheat consigned to my own order, as it is not yet paid for) and I have also insured it. The value of the wheat is two thousand pounds, for which I have John

Lord & Co's. authority to draw a bill on them at three days' sight.
I draw the bill of exchange upon them in the following set :

1st.

MONTREAL, April 15, 1893.

Exchange for £2000.

Three days after sight of this first of exchange (second and third of the same tenor and date unpaid), pay to the order of myself the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,
7 New Broad St.,
London, E. C., England.

2nd.

MONTREAL, April 15, 1893.

Exchange for £2000.

Three days after sight of this second of exchange (first and third of the same tenor and date unpaid), pay to the order of myself, the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,
7 New Broad St.,
London, E. C., England.

3rd.

MONTREAL, April 15, 1893.

Exchange for £2000.

Three days after sight of this third of exchange (first and second of the same tenor and date unpaid), pay to the order of myself, the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,
7 New Broad St.,
London, E. C., England.

I have now exchange for sale, created by the export of the wheat,

and the consequent debt to me of John Lord & Co. I shall sell it where I can obtain the highest price, and have offered it to several bankers; the Bank of Montreal having made the best offer, viz.: 4.87 (* that is to say \$4.87 for each pound), I dispose of the bill of exchange to that institution, indorsing it to the order of the Bank, and I also indorse the bill of lading over to the Bank, and likewise assign to it the policy of insurance.

The Bank having *bought* exchange on London, or the debt owing to me there, is now in a position to *sell* exchange on London. Here are a dozen Montreal merchants desirous of paying debts that they owe in London, and knowing that the Bank has exchange for sale they will save the trouble and expense of transmitting bullion (gold or silver) by buying bills drawn by the Bank of Montreal on its London agent for the various sums that they may require, and to the order of the persons to whom they are indebted, until the two thousand pounds, representing the export of the wheat, is exhausted. If the bank, in order to meet its customer's demands, should issue bills to a larger amount than the two thousand pounds, it could make one remittance in coin to cover the overdraft. In actual practice, however, this would not be necessary for any one day's transactions, for the bank has other funds available in London, or if not, has credit, which is just as good. However, if the overdraft on its London correspondent continued, the bank would require periodically to remit coin, or buy exchange from some other bank to remit.

You will see from the above how large international transactions are conducted, and many acts of exchange accomplished, by a single transfer of specie. Gold is the common denominator of value, Bills of Exchange represent it, and gold could be obtained for them, but it is not the actual medium of exchange. The wheat that I exported paid for the importations of a dozen merchants, which is practically barter, where equivalent quantities of goods are made to pay for each other.

*The par of Sterling Exchange is \$4.86 $\frac{2}{3}$, or 9 $\frac{1}{2}$ % over the old par, which was \$4.44 4-9. The rate of exchange is the price at which it is being bought and sold daily. The Bank bought as above at \$4.87 (above par) and sold say at \$4.88.

From the transactions in exchange mentioned as occurring in one bank in Montreal, let your mind dwell on the hundreds of similar transactions that are occurring daily in the great cities of the continent, in connection with its exports and imports, and you will understand when you read in the papers "that bullion has been shipped from England to America" (or vice versa) that one such transmission is the single settlement in coin for thousands of international transactions, whereby freight charges, insurance and actual loss of gold, that would be involved if each one had to ship gold to meet his individual debts, are avoided.

Bills in a Set.

Three, or at least two, bills are issued in a set of exchange, (see page 38,) each part of the set being numbered, and containing a reference to the other parts; the whole of the parts constitute one bill, and one part having been paid the others are void. The original object of issuing more than one bill was that they might be sent by different conveyances, and whichever one was presented to the drawee first was paid. When the ocean mails were carried by sailing vessels, delays were frequent. A vessel bearing the second of exchange, although sailing two weeks later than the one by which the first was sent, might reach its destination at an earlier date than the other. The punctuality of the ocean mails now, renders it usually unnecessary to remit more than one bill of the set.

LETTER OF CREDIT.

COLONIAL BANK, BARBADOS, W. I., 26th January, 1893.

Messrs. Brown Brothers & Co.,

Agents Colonial Bank,

New York.

DEAR SIRS,—

You are hereby authorized to cash the Gold Drafts, without deduction, of Mr. Belfield Grannum on Mr. E. T. Grannum of this Island, at 30 days' sight, to the extent of \$520, say Five Hundred and

Twenty Dollars, this Credit to remain in force for three months from date.

The Messrs. Grannum's signatures were sent you last year.

I am, Dear Sirs,'

Yours faithfully,

F. J. HOWELL,

Manager.

This places Mr. Grannum in the position to obtain funds from Brown Bros., New York, to the amount named, on the credit of the Colonial Bank, Barbados.

Circular Letters of Credit

are issued by some banks for use by travellers. They are more convenient than a bill of exchange, because money can be obtained upon them in various countries. The identification of the person to whose order a circular letter of credit is drawn is established by his signature on the margin, certified by the banker who issued it. Where he is an entire stranger, to prove his identity, he has only to submit his signature for comparison with that which he signed upon the margin.

CHEQUES ON A BANK.

A cheque is a bill of exchange drawn on a bank, payable on demand.

Form.

STUB,	No. 1,053.	Belleville, Ont., June 2nd, 1893.
No. 1,053.	To the Canadian Bank of Commerce,	
June 2nd, 1893,	(Belleville Branch)	
In favor of Geo. Ritchie & Co.	Pay Messrs. Geo. Ritchie & Co., or order.	
\$75.50	Seventy-five 50/100.....dollars.	
In full of Account to date.	\$75.50	(in full of Acc. to date.)

ROBINSON & JOHNSON.

In the above example Robinson & Johnson have funds on deposit in the branch of the Bank of Commerce at Belleville, and desiring to pay George Ritchie & Co. the amount of their account, give them a cheque for \$75.50. The cheque drawn as above will serve as a receipt when it is paid, and received back from the bank, because it is payable to the order of the payee, names what it was given for, and must be indorsed by Geo. Ritchie & Co. before they can transfer it, or draw the money on it.

Accepted Cheques.

On receiving a cheque from the drawer, the payee should present it at once to the bank for acceptance, and within a reasonable time for payment. The ledger keeper is the officer who accepts it, and the teller the one who pays it.

Indorsing Cheques.

A cheque payable to bearer is negotiated by delivery ; one payable to order is negotiated by indorsement and delivery. The safest way is to make all cheques payable to order. See indorsements at pages 17 and 18. Do not indorse a cheque until you present it for payment, when you will indorse it in blank. If you transfer it, indorse it in full.

Numbering Cheques.

Number your cheques so that you may have the satisfaction of knowing that they have been returned ; preserve them, consecutively numbered, in packages, so that you can produce them at any time.

Checking the Bank Account.

Leave your pass book in the bank on the last day of each month to be balanced. About the 2nd or 3rd of the new month it will be handed to you (after you have signed an acknowledgment that the balance shown is right), together with the cheques, notes and acceptances that have been paid and charged to your account up to the end of the previous month. You will sometimes find that the balance in the bank pass-book and the balance in your books do not

agree. In this event find what cheques are missing by noting the numbers that are absent, refer to the corresponding stub numbers, and you will find (unless mistakes have been made) that the sum of the absent cheques is the difference. The absent cheques had not been presented for acceptance when the pass-book was made up ; you had credited the bank with them in your books, but they had not then been charged by the bank to your account, hence the discrepancy.

Keep Daily Track of your Bank Balance.

It is a most unpleasant experience for a reputable business man when he has given a cheque in good faith, to have it returned with the remark, "no funds." Men who have no financial reputation to sustain "don't care," and frequently put persistent creditors off temporarily by drawing cheques which they know there are no funds to meet. A man who wants to know daily how his balance stands, and who cannot keep the bank account in the ledger posted closely, can keep track of the bank transactions on the back of the stubs of his cheques as follows :—

The balance this morning was \$920.70.

\$100. \$57.20, \$60.30

Three cheques were issued to-day, Nos. 129. 130. 131.

The proceeds of a note discounted amount to \$430.20.

A deposit was made to-day of \$600.

On the back of the stub of the last cheque issued write

Balance over,	.	.	.	.	.	\$920.70
Deduct						
Cheques Nos. 129,	.	.	.	.	\$100.00	
130,	.	.	.	.	57.20	
131,	.	.	.	.	60.30	
						217.50
Add						\$703.20
Proceeds of discount,	.	.	.	.	430.20	
Deposit,	.	.	.	.	600.00	1030.20
Present balance,	.	.	.	.		\$1733.40

A man will not, unless he designs to do it, issue cheques for which there are no funds if he attends accurately to this matter each day.

Rate of Exchange on Cheques

Cheques presented at any other branch of the bank than that in which the drawer's funds are on deposit, are subject to a deduction for exchange of $\frac{1}{4}$ of 1%. You should therefore make your cheque for the amount of the debt and the exchange, if it is to be paid at another branch. If you keep a fair balance with your banker on which no interest is allowed, he may grant you the concession of marking your cheques payable at par at the branch where it will be presented for payment.

Precaution Against Fraud.

Draw your cheques so that they cannot be raised or altered. In the example given at page 41, you will observe that there is no unfilled space to the left of the written amount, and the fraction (or if no fraction $\frac{\infty}{100}$) follows close up to it on the right. Neither on one side nor the other can any word be added. If you fail to observe such a precaution, and by your carelessness invite fraud, and it should succeed, you, and not the bank, will be the loser.

Identifying Strangers on Cheques.

Take care, when identifying a payee on a cheque or draft to enable him to draw money, that you do not incur responsibility. For example: John Jones, whom you know, wants you to identify him on a cheque or draft payable to his order that has not been accepted. He indorses it; underneath his signature write, "Identified by," and sign your name. Doing this, you only certify that he is John Jones; but if you simply indorse your name under his, you would guarantee both the man and the money. He may say, "but I cannot get the money on personal identification only;" your reply would be, "well, let it be sent for collection, I decline to incur any responsibility beyond identifying you." You may not get up a reputation as an "obliging fellow," but you will have the satisfaction of knowing that you are safe.

Crossed Cheques.

When it is intended that a cheque shall not be negotiable, it is crossed.

1. Where a cheque bears across its face an addition of :—

(a) The word “bank” between two parallel transverse lines, either with or without the words “not negotiable ;” or

(b) Two parallel transverse lines simply, either with or without the words “not negotiable ;”

That addition constitutes a crossing, and the cheque is crossed generally.

2. Where a cheque bears across its face an addition of the name of a bank, either with or without the words “not negotiable,” that addition constitutes a crossing, and the cheque is crossed specially, and to that bank.

A cheque may be crossed generally or specially by the drawer.

3. Where a cheque is uncrossed, the holder may cross it generally or specially.

4. Where a cheque is crossed generally, the holder may cross it specially.

5. Where a cheque is crossed generally or specially, the holder may add the words “not negotiable.”

6. Where a cheque is crossed specially, the bank to which it is crossed may again cross it specially, to another bank for collection.

7. Where an uncrossed cheque, or a cheque crossed generally, is sent to a bank for collection, it may cross it specially to itself.

8. A crossed cheque may be re-opened or uncrossed by the drawer, writing between the transverse lines, and initialing the same, the words “pay cash.”

Book-Keeping Entries for Cheques.

When you deposit in the bank, you make the Bank Dr. to Cash. When you draw a cheque, credit the bank and debit the person to whom, or the account for which, it has been issued. When you receive a cheque, make Cash Dr. to the person from whom, or the account for which, you received it.

Cheques may either be journalized or put through the cash book. It is not necessary to credit each cheque singly. The cheques issued in a day or a week or a month may be credited in one sum to the bank. Four cheques were issued to-day, journalize them from the stubs as shown on page 47.

Important Points in Connection with the Bills Receivable and Bills Payable Accounts.

You will find analyses of the above accounts at pages 22 and 23. I wish to emphasize here, and draw the student's special attention to the point, that when you retire your notes or acceptances, you should never charge Bills Payable account with more or less than the face of the instrument (the amount credited when issued); and that when a note or acceptance against some one else is disposed of, Bills Receivable account should never be credited with more or less than the face of the instrument (the amount debited when received).

Examples.

	ENTRIES.
You pay your note, face \$500 and interest \$5.00.	Bills Payable Dr. \$500.00 Interest " 5.00 To Cash 505.00
You pay a note, face \$600, before maturity, and get a discount of \$10 off.	Bills Payable Dr. 600.00 To Cash 590.00 " Discount 10.00
You receive payment of a note, face \$300 and interest \$4.00.	Cash Dr. 304.00 To Bills Receivable 300.00 " Interest 4.00
You receive less than the face of a note when disposing of it; face \$700, discount allowed \$10.00.	Cash Dr. 690.00 Discount Dr. 10.00 To Bills Receivable 700.00

If you carefully observe these instructions, you will find that the difference between the two sides of Bills Payable account will always agree with the notes outstanding; and the difference between the sides of Bills Receivable account will always agree with the notes on hand. When issuing a note (or acceptance) bearing interest, the entry is just the same as if it were not, because the interest is a matter for the future.

Journalizing Cheques.

Sundries to Bank,	-	-	-	-	-	\$120	00
I. Chapinan & Co.,	-	-	-	-	-	75	00
Expense,	-	-	-	-	-	100	00
C. Brown,	-	-	-	-	-	304	00
Bills Payable,	-	-	-	-	-		
					For cheque No. 129 in full of acct.,		
					" " 130, rent to date,		
					" " 131, salary to date,		
					" " 132, retired, B. P. No. 309		
						\$599	00

Place the journal folio in red ink or colored pencil on each stub as it is journalized, or, if put through the cash book, put the cash book folio on it.

Putting Cheques Through the Cash Book.

It is often more convenient to put cheques through the cash book than through the journal. To put the above cheques through the cash book instead of the journal, make the following entries :

DR.		CASH.		CONTRA.		CR.
<i>Date.</i>	<i>Folio.</i>			<i>Date.</i>	<i>Folio.</i>	
1893				1893		
May 9	309	To Bank, for cheque No. 129,	120 00	May 9	247	By J. Chapman & Co., in full of acc. by cheque 129
"	309	" " " "	75 00	"	304	" Exp., rent by cheq. 130,
"	309	" " " "	131 00	"	132	" C. Brown, salary by cheque 131,
"	309	" " " "	132 304	"	57	" Bills Pay., retired B. P., No. 309 by cheque 132.
						120 00
						75 00
						100 00
						304 00

QUESTIONS FOR REVIEW.

INTRODUCTORY.

What is Common Law? What is Statute Law? From what has the Law relating to Bills of Exchange grown? What is the Law-making power of merchants known as? Give two illustrations of the controlling effect of the Law-merchant.

What are the commonest forms of contracts? Name the two kinds of contracts. How may Simple Contracts be made? How must Specialty Contracts be made? What is essential in every Contract? When suing on a simple contract what must be proved? Does this requirement apply to a Specialty Contract? What is the Statute of Frauds and when was it passed? It requires that certain simple contracts shall be in writing; name the principal cases. What contracts must be not only in writing, but be under seal? What is a seal? Who are competent to make a contract? What is a minor? What must be attached to a contract with a corporation to make it binding? How is authority conferred upon an agent? In making a contract by correspondence what is required? When do contracts become outlawed? What is the Dominion Statute called which codified the laws relating to Bills and Notes?

QUESTIONS FOR REVIEW.

NOTES.

State the three reasons that make it desirable to hold a note against a debtor. Explain the term "discounting a note." Give a definition of a Promissory Note. What is meant by a determinable future time? Name the parties to a note. How are notes transferred? When may notes be transferred? Explain a negotiable note; a note negotiable without indorsement; a note negotiable by indorsement. Give the form of a non-negotiable note; a note negotiable by indorsement; a note negotiable without in-

dorsement ; a note payable on demand ; a joint and several note. Explain a joint and several note. Explain a Joint Note. What are the rights of a third party in a negotiable note ? What are the rights of an assignee of a non-negotiable note ? Explain an accommodation note. Give an example, and state why it is made payable to the order of the indorser and not to the order of the lender. What may be done in regard to a lost note ? Discrepancy between words and figures, which is payable ? Name circumstances that do not invalidate a note. What is a holder in due course ? What must be done on a note given for a patent right ? What is the effect of altering a note ? Explain what is meant by the legal rate of interest. Under what circumstances would you insert the words, "AS WELL AFTER AS BEFORE MATURITY UNTIL PAID" in a note bearing interest ? What is a usury law ? What are days of grace ? When would a note drawn 3 months from October 26 fall due ? When would a note drawn at ninety days from October 26 fall due ? What is a power of attorney ? How does the holder of a power of attorney sign business papers for his principal ? What does the abbreviation *per pro* stand for ? When does a note become outlawed ? What is the Statute of Limitations ? What is the act of indorsing ? What are its effects ? Explain indorsement in blank, and what may the holder do ? Explain indorsement in full ; qualified indorsement ; restrictive indorsement ; indorsement for deposit only. How could you prove the payment of a note ? What is the order of indorsers' liability ? Explain guarantee on a note. Where should a note be presented for payment ? What are the proceedings to be taken to hold indorsers on a note not paid at maturity ? If the services of a notary cannot be obtained, who may perform his functions ? What is waiving protest ? Give examples. Why is it unnecessary to protest a note on which there is no indorser ? What is noting ? How should partial payments be acknowledged on notes ? When you have paid a note, what should you do with it ? When renewing your note, what should you receive ? What is a bill receivable ? What is a bill payable ? In book-keeping what are the accounts representing notes called ? Analyse the bills receivable and bills payable accounts. Give the entries of the maker having a note renewed. Give the entries of the holder when renewing a note. Give the entries of each for partial renewals. Explain a Lien note. Which legislature deals with lien notes ? What is an I. O. U. ?

QUESTIONS FOR REVIEW.

DRAFTS.

Give a definition of a Draft or Inland Bill. Explain the difference between a note and a draft. How many parties are there to a draft? Name them. Explain each one's position. Which one accepts the draft? What party to an acceptance stands in the same position as the maker of a note? What party to a draft stands in the same position as the first indorser on a note? To hold the drawer of a dishonored bill what must be done, and when? Explain the theory of exchange. Give an example of a draft with three firms or persons and two debts concerned. How is a draft payable ten days after *sight* accepted? How is a draft payable ten days after *date* accepted? From what date do you reckon the maturity of a draft drawn ten days after sight? From what date do you reckon the maturity of a draft drawn ten days after date? What is a draft called after it has been accepted? Under what circumstances are the drawer and payee of a draft the same person? To whose order is it made payable? Give the drawer's entry for a time draft. Give the payee's entry. Give the drawee's entry. Give an illustration of exchange. State the acceptor's liability. State the drawer's liability. State the indorser's liability. In case of dishonor, who may recover, and what? What will be done when a draft is dishonored? How may protest be avoided if desired? Give definition and requisites of acceptance. Explain what is due presentment for payment. What is the usual rate of bank commission for collecting drafts? How will you ensure the collection of a definite sum when you cannot tell how much the exchange will be? Name the three kinds of drafts. Explain each. To give a person four clear days to pay a draft, no matter how long it may take to reach him, how would you draw it? To give him fifteen days? To give him three days? To give no time? What is an accommodation draft? What expression is used to describe this method of raising money? How would you proceed

to obtain assistance by draft to retire an acceptance or note? What is the object of a bank draft? What does par mean? When is a draft called a foreign bill of exchange? What was its origin? Give an illustration of foreign exchange. How many bills are usually issued in a set of exchange? Why is more than one issued? Give the form of the first bill in a set of exchange? The second? The third? What is a letter of credit? What is a circular letter of credit?

QUESTIONS FOR REVIEW.

CHEQUES.

Give a definition of a cheque. Give a form. How is a cheque drawn in order that it may serve as a receipt? What act of the payee would prove payment? Explain what is an accepted cheque. What officer of the bank accepts it? What officer of the bank pays it? How is a cheque payable to bearer negotiated? How is a cheque payable to order negotiated? When should you indorse a cheque? Why should cheques be numbered? How should cheques be preserved? How should you check the bank account? If a discrepancy exists between the pass book, when balanced, and your account, how do you find the cause? State a simple method of keeping daily track of your balance in bank. What is the rate of exchange charged on cheques? When is it charged? Cheques payable at par at another branch, explain. How will you take precaution against fraud? How would you identify a payee? What are crossed cheques? Give journal entries for cheques. Put cheques through the cash book. State two important points in connection with Bills Receivable and Bills Payable accounts.

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Newfoundland.

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Canada.

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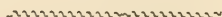


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